NOVA SCOTIA

Department of Finance

Honourable Peter Christie
Minister of Finance
September 15, 2004

FISCAL 2004-2005 FORECAST UPDATE

Overview

The Government of Nova Scotia's first forecast update for fiscal 2004-2005 shows the province's budget is on target in most categories and a slightly larger surplus is projected.

Revenues are projected to be higher overall compared to the budget estimate in April. These are sufficient to cover current spending pressures in health care and economic development. Current trends suggest the province will have a surplus of $2.3 million in fiscal 2004-2005.

If salary pressures exceed budget assumptions, the government will need to find additional savings to avoid a deficit. This forecast does not incorporate potential results of federal/provincial/territorial health care and equalization funding discussions currently underway.

2004-2005 FISCAL SUMMARY *($ thousands)*	**Budget**	**Forecast**	**Increase (Decrease) from Budget**
Consolidated Fund			
Revenue	**5,557,572**	**5,565,472**	**7,900**
Expenses			
Net Program Expenses	5,077,630	5,085,372	7,742
Pension Valuation Adjustment	(9,400)	(9,400)	---
Net Debt Servicing Costs	877,821	877,821	---
Total Expenses	**5,946,051**	**5,953,793**	**7,742**
Debt Retirement Plan	10,000	10,000	---
	(398,479)	**(398,321)**	**158**
Consolidation and Accounting Adjustments for Governmental Units			
Consolidated Fund Consolidation Adjustments	36,000	36,000	---
Health Authorities Operations	1,500	1,500	---
Other Organizations	4,395	4,395	---
	41,895	**41,895**	**---**
Net Income (Loss) for Government Business Enterprises			
Nova Scotia Gaming Corporation	169,000	169,000	---
Nova Scotia Liquor Corporation	181,715	181,715	---
Other Enterprises	8,000	8,000	---
	358,715	**358,715**	**---**
Provincial Surplus (Deficit)	**2,131**	**2,289**	**158**

Revenues

Overall, revenues are forecasted to be $7.9 million higher than the 2004-2005 budget.

Offshore forfeitures are forecasted to be $40.0 million while royalty revenues are now expected to be $3.0 million higher than estimated at budget. These revenues are being offset, in part, by a decrease in equalization of $21.5 million. In its 2004 budget, the Government of Canada announced that it would reset the offshore offset start date from fiscal 1992-1993 to 2000-2001. This reset establishes a clawback rate of 50 per cent for fiscal 2004-2005.

In addition, Fuel and Tobacco tax revenues are each expected to be $5.0 million less than anticipated at budget. These revenue sources have been adjusted to reflect the most recent consumption data.

Expected interest revenues are being adjusted downward by $3.6 million to reflect a revised forecast.

Data on federal transfers and income taxes will be available in late October. Although the provincial revenue estimate is generally on target for fiscal 2004-2005, it is still early in the fiscal year and changes could occur with new information. Federal transfer are affected by many variables, including the performance of other provincial economies.

REVENUE **Fiscal 2004-2005** *($ thousands)*	**Budget**	**Forecast**	Increase (Decrease) from Budget	
Provincial Revenue Sources				
Personal Income Taxes	1,465,695	1,465,695	---	
Corporate Income Taxes	263,753	263,753	---	
Harmonized Sales Tax	1,015,336	1,015,336	---	
Motive Fuel Taxes	255,872	250,872	(5,000)	
Tobacco Tax	180,217	175,217	(5,000)	
Interest Revenues	64,898	61,297	(3,601)	
Registry of Motor Vehicles	80,381	80,381	---	
Royalties - Petroleum	20,000	23,000	3,000	
Other Provincial Revenues	228,675	268,676	40,001	
Total - Provincial Revenue Sources	**3,574,827**	**3,604,227**	**29,400**	
Federal Revenue Sources				
Equalization Payments	1,202,851	1,181,351	(21,500)	*
CHST	703,998	703,998	---	
Health Reform Fund	44,109	44,109	---	
Other Federal Sources	31,787	31,787	---	
Total - Federal Revenue Sources	**1,982,745**	**1,961,245**	**(21,500)**	
Total Revenue	**5,557,572**	**5,565,472**	**7,900**	

* Nova Scotia's offshore revenues trigger a 50 per cent reduction in related equalization entitlements. This impact occurs, in part, through the existing equalization program and through the federal re-triggering of the Offshore Offset payments. For presentation purposes, these impacts are combined under Equalization Payments.

Net Program Expenses

Program spending is forecsted to be $7.7 million higher than estimated, primarily due to increased health care sector wage settlements and for job creation activities.

The Department of Health forecast has been increased by $3.9 million to reflect the maximum budgetary pressure that could result from the recent arbitration award for the health care bargaining unit at the Capital District Health Authority. The final impact may be less, depending on the number of staff who are eligible for the additional catch-up award.

There is also a $4.4 million net increase in the Office of Economic Development's loan valuation allowances for forgiveable loans that support the government's goal of job creation.

NET PROGRAM EXPENSES
Fiscal 2004-2005
($ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture and Fisheries	40,796	40,796	---
Community Services	694,145	694,145	---
Education and Universities	1,209,379	1,209,679	300
Energy	7,350	7,331	(19)
Environment and Labour	26,152	25,817	(335)
Finance	14,134	13,829	(305)
Health	2,341,690	2,345,549	3,859
Justice	99,626	99,626	---
Natural Resources	59,322	59,311	(11)
Public Service	154,146	158,521	4,375 *
Service Nova Scotia and Municipal Relations	92,352	92,352	---
Tourism, Culture and Heritage	41,055	40,933	(122)
Transportation and Public Works	241,009	241,009	---
Restructuring Costs	56,474	56,474	---
Total - Net Program Expenses	**5,077,630**	**5,085,372**	**7,742**

* The Public Service entry consists of various agencies and programs. A complete list is included in the Estimates, Province of Nova Scotia for the fiscal year 2004-2005. This amount includes a $4.4 million increase in OED's loan valuations, which was offset by other operational savings.

Debt Servicing

Net Debt Servicing Costs (DSC) are calculated by subtracting sinking and debt retirement fund earnings from gross debt servicing costs. Net DSC are forecasted to remain unchanged at $877.8 million. Although short-term interest rates have been below the budget assumption, the expectation is for rising interest rates for the remainder of the fiscal year.

To date in fiscal 2004-2005, the Province has raised $150.0 million by way of four retail structured notes. Although this completes 44.0 per cent of fiscal 2004-2005 projected borrowing requirements, the Department of Finance remains opportunistic to financing opportunities.

All three major ratings service have increased the province's credit rating in the last year. Moody's upgraded the province on September 1, 2004 and Standard and Poor's on August 20, 2004. Dominion Bond Rating Service had upgraded the Province's credit rating to A (low) with a stable outlook last year. These improved ratings will benefit the Province in the long term.

Economic Performance and Outlook - 2004

The latest forecast for Nova Scotia projects growth in real Gross Domestic Product for 2004 to remain the same as the budget forecast at 2.0 per cent.

Recent private sector economic forecasts are in line with the provincial budget forecast of 2.0 per cent real GDP growth for 2004. The average for the latest survey of private sector forecasters is 2.2 per cent.

CPI inflation is on track with the budget forecast of 1.5 per cent in 2004 as recent increases are offset by lower CPI in the early part of 2004. Growth in consumer spending is expected to remain unchanged at 4.0 per cent.

This document and other financial publications can be viewed on the Department of Finance website at:

http://www.gov.ns.ca/finance

NOVA SCOTIA Finance

Forecast Update

The Honourable Peter G. Christie, Minister of Finance

December 20, 2004

Overview

The Province of Nova Scotia's second forecast update for 2004-2005 shows that government will be able to invest more in key priorities this year, while maintaining a budget surplus of $2.7 million.

Higher than budgeted revenues will allow government to make additional investments in health care, education, social services, and in other important areas. Total revenues are up $249.4 million, due to higher provincial corporate income tax revenues and additional federal revenues for health care and equalization.

Health care funds will be targeted to specific priorities such as reducing wait times in patient care. Other funds will be used to support universities and public school education, programs and services for low-income Nova Scotians, and infrastructure investments in other sectors.

Government will also set aside an additional $60 million for debt reduction to provide flexibility in capital infrastructure investments in future years.

Fiscal Summary Fiscal 2004–2005

($ thousands)

CONSOLIDATED FUND	Budget	Forecast	Increase (Decrease) from Budget
Revenue	**5,574,172**	**5,823,560**	**249,388**
Expenses			
Net Program Expenses	5,077,630	5,234,252	156,622
Pension Valuation Adjustment	(9,400)	26,127	35,527
Net Debt Servicing Costs	877,821	895,868	18,047
Total Expenses	**5,946,051**	**6,156,247**	**210,196**
Debt Retirement Plan			
Debt Retirement Contingency	4,000	4,000	0
Debt Retirement Fund	6,000	6,000	0
Debt Retirement for Strategic Infrastructure Investment	0	60,000	60,000
Debt Retirement Plan	**10,000**	**70,000**	**60,000**
	(381,879)	**(402,687)**	**(20,808)**
Consolidation and Accounting Adjustments for Governmental Units	**41,895**	**59,595**	**17,700**
Net Income for Government Business Enterprises			
Nova Scotia Gaming Corporation	152,400	167,700	15,300
Nova Scotia Liquor Corporation	181,715	170,100	(11,615)
Other Enterprises	8,000	8,000	0
	342,115	**345,800**	**3,685**
Provincial Surplus	**2,131**	**2,708**	**577**

NOVA SCOTIA

Revenues

Total revenues are forecasted to be $249.4 million higher than the 2004-2005 Budget.

Exclusive of any prior years' adjustments, provincial own source revenues are forecasted to be $90.0 million higher than in the budget. This is primarily due to revised income tax share data.

Personal income tax revenues are forecasted to be $10.5 million higher than the budget projection.

Corporate income tax revenues are forecasted to be up $51.5 million due to stronger than anticipated corporate taxable income and an increase in Nova Scotia's share of the national total. The forecast for the large corporations capital tax has been reduced by $17.4 million to reflect more recent federal data.

Harmonized sales tax revenues are also forecasted to be $10.5 million higher than budgeted due to a projected increase in Nova Scotia's share of the declared revenue pool, which is the base for the sales tax allocation to the harmonized provinces.

Exclusive of any prior years' adjustments, federal source revenues are forecasted to be $162.8 million higher than projected in the budget. As a result of two First Minister Meetings, one on healthcare and one on equalization, additional federal revenues will flow to the province in fiscal 2004-2005.

National levels for equalization have been set for the next two years until a panel can report to the federal government to determine the allocation of entitlements for fiscal 2006-2007. This increase in the national level of equalization has adjusted the 2004-2005 forecast up from the budget by $118.6 million. Increases in healthcare funding will move revenues upward by $44.2 million in fiscal 2004-2005.

Overall, prior years' adjustments from federal and provincial sources are down $3.5 million. Increases in equalization and corporate income tax for prior years are being offset by a negative adjustment to harmonized sales tax, resulting from revised national pool data.

Revenue Fiscal 2004–2005 *($ thousands)*

REVENUE SOURCE	Budget	Forecast	Increase (Decrease) from Budget
Provincial Revenue Sources			
Personal Income Tax	1,465,695	1,476,161	10,466
Corporate Income Tax	263,753	315,217	51,464
Harmonized Sales Tax	1,015,336	1,025,820	10,484
Tobacco Tax	180,217	179,628	(589)
Motive Fuel Taxes	255,872	250,012	(5,860)
Interest Revenues	64,898	61,297	(3,601)
Registry of Motor Vehicles	80,381	80,965	584
Royalties - Petroleum	20,000	23,000	3,000
Other Provincial Sources	245,275	269,371	24,096
Prior Years' Adjustments	0	(27,150)	(27,150)
Total—Provincial Sources	**3,591,427**	**3,654,321**	**62,894**
Federal Revenue Sources			
Equalization Payments	1,202,851	1,321,407	118,556
Canada Health and Social Transfer	703,998	748,263	44,265
Health Reform Fund	44,109	44,109	0
Other Federal Sources	31,787	31,787	0
Prior Years' Adjustments	0	23,673	23,673
Total—Federal Sources	**1,982,745**	**2,169,239**	**186,494**
Total—Revenues	**5,574,172**	**5,823,560**	**249,388**

Net Program Expenses

Federal-provincial-territorial negotiations in the fall of 2004 resulted in agreements to increase federal funding for health care and equalization. This allows the Government of Nova Scotia to invest more in the priorities of Nova Scotians this year.

Additional health care investments in 2004-2005 are intended to reduce wait times for people seeking medical treatment, and improve the services people receive. District Health Authorities will receive an additional $19.2 million in capital grants for infrastructure and $19.5 million to shorten wait lists. The long term care sector will receive $4.2 million more to deal with deferred maintenance issues and $1.6 million has been added to addiction treatment programs for the Healthy Living Initiatives.

Investments by the Department of Education, totalling $5.3 million, cover a variety of initiatives, ranging from buying textbooks and technology for schools to improvements in the regional libraries. Also, an additional $2.0 million has been provided to the regional school boards for non-capital infrastructure maintenance.

The recently announced Memorandum of Understanding with Universities will provide Nova Scotia institutions with committed funding increases until March 31, 2008. The first installment of $20.3 million is included in this forecast. In return, student tuitions will not increase more than 3.9 per cent per year during the coming three years.

In December 2004, the Department of Community Services announced investments totalling $11.0 million in emergency home repair programs, public housing and vocational day programs to help seniors, low-income Nova Scotians and persons with disabilities. This investment has been partially offset by other savings in the department.

The increase in the Service Nova Scotia and Municipal Relations forecast includes $15.8 million for the Keep the Heat program, which offsets energy costs for low-income earners. An additional $0.8 million has been allocated to the Provincial Capital Assistance Program for municipal infrastructure projects.

The Province is investing an additional $10.0 million in 2004–2005 through the Tourism, Culture and Heritage department in programs that will better promote the province in key markets and assist in regional tourism initiatives.

The additional $8.9 million in the forecast of the Department of Agriculture and Fisheries reflects the steps taken to help farmers who have been affected by the downturns in the agriculture sector, primarily the result of the Canada-wide BSE (mad cow)crisis. Also, an additional $0.7 million has been allocated to Natural Resources to upgrade infrastructure in provincial parks; these investments were offset by savings in other areas of the department.

The latest forecast for Transportation and Public Works includes an additional $11.0 million related to liabilities primarily connected to the ongoing clean-up of Boat Harbour and the demolition of the old Halifax Infirmary.

The $10.3 million increase in the Public Service envelope includes $5.0 million for community and economic development initiatives in the Office of Economic Development. This is in addition to the $4.4 million noted in the September forecast update and $2.0 million in the Office of Health Promotion for recreational facility development grants and the nicotine replacement program. These increases have been partially offset by savings elsewhere in the Public Service envelope.

The Province is forecasting an increase of $19.3 million in the Restructuring Costs appropriation to provide for higher than anticipated wage settlements.

Net Program Expenses Fiscal 2004–2005

($ thousands)

	Budget	Forecast	Increase (Decrease) from Budget
Agriculture and Fisheries	40,796	49,648	8,852
Community Services	694,145	703,514	9,369
Education and Universities	1,209,379	1,236,965	27,586
Energy	7,350	7,280	(70)
Environment and Labour	26,152	26,079	(73)
Finance	14,134	13,039	(1,095)
Health	2,341,690	2,385,920	44,230
Justice	99,626	99,626	0
Natural Resources	59,322	59,936	614
Public Service	154,146	164,513	10,367
Service Nova Scotia and Municipal Relations	92,352	108,897	16,545
Tourism, Culture and Heritage	41,055	51,055	10,000
Transportation and Public Works	241,009	252,009	11,000
Restructuring Costs	56,474	75,771	19,297
Total - Net Program Expenses	**5,077,630**	**5,234,252**	**156,622**

Pension Valuation Adjustment

The Province of Nova Scotia accounts for pensions and other retirement benefit costs on a basis that is consistent with generally accepted accounting principles. As such the current forecast recognizes pension expense to include the cost of pensionable service earned by employees and amortization of the experience gains and losses in the pension plans. Assumptions used to calculate pensionable service are tied to market rates of return. Recent market performance has indicated a change in these assumptions. A net negative adjustment of $35.5 million has been forecasted.

Net Debt Servicing Costs

The latest forecast for Net Debt Servicing Costs includes an increase of $18. 0 million. This is primarily attributed to increased interest costs on pension obligations.

Debt Retirement for Strategic Infrastructure Investment

The Strategic Infrastructure Investment represents an allocation of $60.0 million to the 2004-2005 annual surplus to enable the Province to increase its capital spending in 2005-2006 and 2006-2007 without negatively impacting the Debt Reduction Plan.

Economic Performance and Outlook—2004

The latest forecast for Nova Scotia projects real Gross Domestic Product (GDP) for 2004 to increase 2.1 per cent, up slightly from the forecast of 2.0 per cent in the budget. Continued growth in consumer and capital spending supports the real GDP forecast.

However, there are concerns over the continued appreciation of the dollar and a slower pace than expected in the United States and Canadian economies, which may have had a dampening effect on export sales in the latter months of 2004.

The recent survey of private sector economic forecasts reveals that those forecasters are in line with the budget and the revised forecast, with an average growth rate for Real GDP at 2.1 per cent for 2004.

CPI inflation is on track with the budget projection of 1.5 per cent while employment is growing at a much faster pace than anticipated. Employment growth has been revised upwards to 2.2 per cent for 2004 from the 1.1 per cent projected in the budget.

Net Income for Government Business Enterprises

Net income for Government Business Enterprises is up $3.7 million overall.

The Nova Scotia Liquor Corporation's revenues are forecasted to be $11.6 million lower than 2004-2005 budget, due to lower than projected sales.

Revenues for the Nova Scotia Gaming Corporation are forecasted to be $15.3 million higher for 2004-2005. Video lottery revenues have increased $19.5 million over budget and casino revenues are up $3.7 million. These are offset by a $7.2 million decline in ticket lottery.